EFFECT OF FOREIGN CAPITAL ON THE ECONOMIC GROWTH OF INDIA: AN ECONOMETRIC STUDY

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ABSTRACT

India offers better growth prospects and earning potential in almost all the areas of business as it is the fifth largest economy in the world and second largest among underdeveloped countries. But rugged regulations, political turmoil, bureaucratic hassles, infrastructural bottlenecks etc all these factors restricted the entry of foreign capital into the Indian Territory. Foreign Investment is a key component in the economic growth of any developing country. Foreign Direct Investment (FDI) and foreign institutional investors (FIIs) truly act as catalyst in this context. With the ongoing wave of globalisation, foreign investors are overhauling their business practices to address the Opportunities in the Global Markets and under developed economies too are grabbing the opportunity in order to accelerate its economic growth through reforms and liberalization. In this context the present paper makes a modest attempt to highlight the trends and patterns of foreign capital in form of FDI and FIIs in India and also analysis its impact on the Indian economic growth. To analyze the we employ, Augmented Dickey Fuller Test and Philip Perron, tests of stationarity, Johenson’s co integration approach, and Granger causality/Block Exogeneity Wald tests to conclude the objective of the study. The data span for the study is from 1992-93 to 2011-12. The results reveal a significant relationship of foreign capital and economic growth.

KEY WORDS: Foreign capital, Foreign Direct Investment, Foreign Institutional Investors, Liberalization, Globalisation, GDP